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Mortgage Lenders and some of Their Current Problems



Address by
MR. GEO. H. SMITH
President of the Dominion Mortgage
and Investments Association
at its Annual Meeting in
Edmonton, September
20th and 21st, 1926

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INDEX

	PAGE
Alberta's Progress	3
Conditions in Canada	14
Additional Credit not required	14
Canadian Council of Agriculture Conference 1924	15
Government Scheme Should be on Sound Basis	14
Interest Charged	14
Converting "First" into "Second" Mortgages	5
"Foreclosing the Mortgagee"	4
Interest Rates	8
Australia—Large Urban Population	10
Denmark—Individual Financing	9
Germany—Co-operative Credit—Stable Land Values	9
New Zealand—Comparison Favorable to Canada	10
United States—Tax Exemption	8
Investment Companies and Alberta	4
Problems under Consideration	16
Co-operation of Committees	17
Immigration and Colonization	16
Maritime Provinces	17
Seed Grain Liens	16
Results of Governmental Lending	10
Baneful Results Foreseen	13
Foreclosures—Tenancy	11
Minnesota—Large Losses	12
South Dakota Deficit—Long Terms Abolished	11
United States and Canada	10
Rural Credits	6
Amortization Loans Available	7
Dr. Tory's Report	6
Plenty of Money Available	7
Views of Association	6

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President of the Dominion Mortgage and Investments
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It is my duty and privilege to offer a motion for the adoption of the Report of the Executive Committee, which has just been read by the Secretary. The interests of the large number of financial institutions which comprise the membership of the Association are so extensive, and its responsibilities so correspondingly great that, at the risk of unnecessarily detaining you, I feel that there are some subjects to which reference should be made. When you receive the Report of the Membership Committee you will learn that the Association, which when it was inaugurated some ten years ago, was composed of thirty-one companies having assets aggregating \$528,421,108, now consists of fifty-five companies which have under their administration assets aggregating the very large sum of \$1,859,965,039. By far the greater portion of this large sum consists of trust funds, accumulated savings and investments, life insurance premiums for the protection of widows and orphans, and the estates, large and small, of deceased persons being administered for their heirs; a very large proportion of our Canadian citizens being, therefore, directly and vitally interested therein.

ALBERTA'S PROGRESS.—To your Executive, it seems appropriate that we should be holding this Tenth Annual Meeting of our Association in the capital city of the Province of Alberta at this time when the province has just come of age. It was my privilege to be in Edmonton and witness the inauguration of the province twenty-one years ago. I cannot say when the members of our Association began to make investments in Alberta. My own company commenced loaning on the security of Alberta lands nearly thirty-six years ago. In 1901 the management of its Alberta business was transferred from Winnipeg, where it had previously been conducted, and it opened a small office in Edmonton and it has been continuously doing a loaning business here from that day to this. I know, personally, that a number of other member companies were also making mortgage investments in Alberta previous to the date at which our Branch Office was opened.

It has been a source of extreme gratification to us to observe the progress Alberta has made during the past twenty-one years. From the date of my first visit, I have never had any doubt that Alberta must become one of the great Provinces of our Dominion, and my faith in the steady growth and development, both of the Province and of its capital city, has never wavered. In this, I believe I am also voicing the views of all the members of the Association who have had personal relationship with their business in this Province over a lengthened period of years. This confidence has been

more than fully justified by the enormous growth of Alberta's wheat production from 3,000,000 bushels in 1905 to 103,000,000 bushels in 1925; by the increase in the value of its agricultural products during the same period, from \$20,000,000 to \$254,000,000; the increase in the area of its crops from 616,000 acres to 11,000,000 acres; the increased value of its dairy products from \$1,000,000 to \$23,000,000, and various other statistics of a similar nature which might be quoted.

INVESTMENT COMPANIES AND ALBERTA. — We believe we can justly and modestly claim to have contributed in no small degree to this enormous expansion. The investments made by the members of this Association in mortgages in Alberta aggregate a great many millions of dollars. That the amount is not very much greater than it is has been, for a number of years, a matter of extreme regret to us all. We were attracted many years ago to "Sunny Alberta" as a field for the safe investment of trust funds under our administration, and we still believe that, as conditions were then, there was no part of the Dominion in which the moneys we had to loan could have been more safely placed in reasonable amounts, and operating on a business basis, than in this Province. Unfortunately, owing to circumstances over which, while we have strenuously and earnestly labored to bring an influence to bear upon them, we have been very plainly made aware that we could exercise very little control, our investments in the Province have necessarily had to be limited to a much greater extent than we desired. Through the action of the Provincial Governments and Legislatures, our business of loaning on the security of first mortgages was gradually, step by step, converted into hazardous second mortgage loaning operations.

It is a simple problem in arithmetic. If on a certain quarter section of land we can safely loan a certain sum, say \$2,000, as a first mortgage, and if, by legislative action, prior claims to the amount of, say \$500, are created, it necessarily follows that the amount which can be borrowed on that farm, to afford the same margin of security, must be reduced to \$1,500. This not only reduces the aggregate of the loans made, but reduces, possibly to an even greater extent, the number of loans which may be made. The circumstances of a large percentage of the applicants renders it impossible to make the smaller sum answer their requirements, and the lending company has very regretfully to decline the application. It would be a satisfaction to every one of us if, to-day, we had twice the amount invested in Alberta mortgages. Since we began to do business in the Province funds have always been available; with the possible exception of a short period during the most stressful years of the war, when the supplies from Great Britain were shut off, when our borrowings in Canada had to meet the competition of the very large volume of War Loans issued by the Government to yield the investor a high rate of interest, and when, in addition to the supply being thus limited, we were asked by the Government, and expected, to invest a large proportion of our available funds in these War Loans, thus diverting them from farm mortgage investments. These facts were, and are, well known to the Finance Minister and other members of the Government.

"FORECLOSING THE MORTGAGEE".—It may, by some, be considered a trite saying that "the interests of the borrower and the lender are identical." Such persons may be assured that this statement is no mere platitude. On the contrary, it is so self-evident that it may be considered as axiomatic. If the farmer has a crop failure, or becomes heavily involved in other debts and liabilities, he cannot pay the interest on his mortgage, nor the instalment of principal, whether the latter be amortized or not. He frequently finds himself unable also to meet his taxes, and too often does not let this worry him, knowing that the mortgagee must pay them to protect the security. In addition to the amount of the mortgagee's claim being increased by interest and taxes, under such circumstances a borrower frequently is

unable to make necessary repairs to his buildings and is compelled to allow his cultivation to deteriorate, involving a depreciation in the value of the property. It does not take long under such conditions as these for the amount of the mortgagee's claim, and the value of the property, to meet and frequently to overlap.

There has been a popular impression, perhaps derived from a certain class of sensational fiction, or from the "sob stuff" of melodrama, of the flinty, hard-hearted, avaricious old money lender waiting for and hoping that the mortgagor will default in his payments, in order that, with a miserlike rapacity, he may seize his property. One of our artists, a number of years ago, executed a somewhat celebrated painting which was entitled "Foreclosing the Mortgage." This work of art should at least have disabused the public mind of the idea generally entertained of the proverbial poverty of the struggling artist. It was quite evident that this particular artist, at all events, had never been in the position of the unfortunate mortgagor he depicted. Had he been, he would have known that the process was not quite so simple, especially if it had been attempted in Alberta. We have all been unfortunate enough to have found it necessary, notwithstanding every effort to avoid it, to have to realize upon some of our securities, and I think most of you will agree with me that the procedure has not infrequently been more in the nature of foreclosing the mortgagee than of foreclosing the mortgage. At any rate, in a large percentage of cases the mortgagee has been compelled to sustain considerable losses.

CONVERTING "FIRST" INTO "SECOND" MORTGAGES. — The man who ignorantly thinks that it is a simple and easy matter to avoid loss, to say nothing of deriving a profit from loaning money on the security of real estate, either farm or urban, has had very little experience in such transactions. The most careful and thrifty borrowers will sometimes meet with misfortune and, even when our mortgages were first claims on the security, there was always a percentage of loss. In Alberta the Legislature stepped in and converted our first claims, where loans had been made for as much as could be safely advanced as a first lien, into second mortgages. In cases where, relying on the known responsibility of the borrower, we had granted perhaps larger loans than we should otherwise have done, they took away the covenant. It is somewhat strange that the inevitable result could not have been foreseen. Those of us who have steadily continued to carry on our loaning operations here have necessarily had to lend considerably less, and others who might have been tempted to come into the field have been deterred by the losses which they knew were being sustained by the earlier lenders. "Vested interests" or "vested rights" is a term which in these latter days has come to be very lightly regarded and sometimes held in derision by too many of our citizens and legislators. Vested rights, however, are merely the rights one legally has, or one's lawful property, and if those responsible for making the laws of the country take away those rights and deprive the owners of their property, as is the result when mortgagees are compelled to take losses which would not have been necessary but for the repeal or amendment of the laws under which their investments were made, the action is no more to be justified than the abolition of the laws against petty larceny or burglary. No, gentlemen, it will not do.

In vain we call old notions fudge,
And bend our conscience to our dealing:
The Ten Commandments will not budge,
And stealing will continue stealing.

Fortunately there is beginning to be a recognition of the baneful effect of these legislative actions in limiting the supply of funds available for investment in the Province. The President of the Lethbridge Board of Trade, in a recent article entitled, "The Call for Capital in Southern Alberta," said:—

The Province of Alberta has been a field for experimental laws affecting the enforcement of contracts. We have had legislation that one may term not merely paternal, but maternal. Through times that have been very trying to all, especially to farmers in a new country, the Government and the Courts of Alberta have aimed to nurse along the struggling settlers in a fashion that is truly motherly.

Speaking of the causes contributing to the lack of sufficient capital to meet the investment needs, he said:—"There is the creditor who has suffered from laws interfering with the collection of debts," and he added, as a note of encouragement, "From maternal methods of government there is a manly reaction. The borrowers and the producers of the country have learnt by costly experiments the value of credit and the sanctity of contracts." We may ask when will the lessons of this costly experience be learned by our legislators and the necessary steps be taken to profit thereby?

RURAL CREDITS

Since the presentation of the Report of the Special Committee of the Dominion Parliament appointed to inquire into the conditions of agriculture in Canada, in 1923, the subject of Rural Credits has received a great deal of attention, and during the last two Sessions of Parliament particularly, much of the time of both Ministers and Members has been given to its consideration. Unfortunately it has become a political football due to an unprecedented political situation in which the two historical parties, neither of which we believe are convinced either of the necessity for any such scheme as is advocated, or of its practicability, are compelled to outbid one another for the support of a small minority whose constituents have been more or less misled into a belief that the scheme proposed will prove a panacea for all their economic ills. Originally, the agitation was principally for a system of intermediate or short term credits, which it was claimed had not been provided either by the Banks or the mortgage lending institutions of the country. The success which it was assumed had attended the Federal Land Bank system of the United States since its inception in 1916 was strongly urged as an argument in favor of the adoption of some such form of loaning in Canada, and the Committee recommended that the Government further investigate the subject. You are all familiar with subsequent events. The Government asked Dr. Tory to make a full investigation. The result was the compilation of two most exhaustive reports which bear witness to the industry with which Dr. Tory applied himself to the task he undertook, and the time and labor he devoted to it.

DR. TORY'S REPORT.—These Reports have lent very much of the weight and influence which have supported the agitation for a Rural Credit scheme in Canada, and which have been responsible for Government measures having been presented at the last two Sessions of Parliament, the latter of which would now have been law if Parliament had not been dissolved before it obtained the Royal assent. No one would for a moment question the absolute bona fides of Dr. Tory's good intentions. We do say, however, that these Reports contain information relating to conditions in other countries which are by no means parallel to those which exist in Canada and from which misleading inferences have been drawn.

OPPORTUNITY TO PRESENT VIEWS OF ASSOCIATION.—Representations to this effect, which your Executive made to the Government, accompanied by requests for an opportunity to be heard in reply to the Reports which had been received and circulated, were ignored. Statements made in the Reports were used throughout the country as propaganda. Newspapers seemed to take delight in publishing and republishing these statements as news items and in their editorial columns, but would give scant and meagre consideration to any suggestion that there was another side to the story. It was not till, at the last Session of Parliament, the Rural Credits Bill had passed the

House of Commons and was before the Senate, that we were given a belated opportunity to appear before the Banking and Commerce Committee, not to make any attempt to refute the arguments and correct the misrepresentations which had influenced the introduction of the Bill, but to make representations with reference to the Bill itself, the adoption of which was a foregone conclusion.

For these reasons I feel it necessary to make some further references to this subject at this time. Obviously it will be impossible, in the limited time at my disposal, to deal exhaustively with the contents of two fairly lengthy blue books. Even to present as briefly as possible a few of the facts which we claim the Government and Parliament should have given us an opportunity of presenting to them and to the public, will I am quite conscious, make great demands upon your patience and charity.

PLENTY OF MONEY AVAILABLE.—The plea so persistently put forth that Canada must provide this additional form of credit for the salvation of its farmers, is based upon two statements. First, That the existing lending institutions have failed to provide sufficient credit to meet the requirements; and, second, That there is an insistent demand which cannot be supplied for loans to be repaid over a long term of years on what is now known as the Amortization Plan; coupled with the not unnatural suggestion that loans at a lesser rate of interest would be desirable. The latter may be admitted, but both the former statements we deny. I have no hesitation in declaring most positively that, with the sole exception of the most critical years of the War, when, as I previously stated, supplies of British capital were cut off and the Government practically compelled us to divert a considerable portion of funds which would otherwise have been available for farm loans to the purchase of War Bonds, there has always been an ample supply of money available for such loans as could be safely made, especially for loans on farm lands. It may be added that during that period, notwithstanding the greatly advanced cost of the money loaned, the increased cost of transacting business, and the heavy taxation of various forms which were imposed, the interest rates the farmers had to pay were not increased. Can as much be said for any other item of their outlay? It is true every application received has not been accepted, but loans have been made which subsequent experience showed should not have been granted. Lending Companies have to pay interest on their moneys, and until reloaned these funds are a source of loss instead of profit. They do not, therefore, decline sound business.

I am aware that this question of whether the supply of money for mortgage loans has been adequate is one upon which there may be a legitimate difference of opinion, and that my claim that it has been adequate is not possible of mathematical or geometrical demonstration. Neither can those who claim otherwise conclude their argument with "Q.E.D."

AMORTIZATION LOANS AVAILABLE.—With reference to the other statement, I do know whereof I speak. There has not been a minute since 1855 when loans repayable according to this plan could not have been obtained. In the early days all loans were made repayable in this way, and some of the lending companies have never discontinued this plan of loaning. For many years, however, there has been very little demand for loans on this system. On the contrary, there was a marked tendency to insist upon the shortest term possible, and those Companies, which in later years confined their loaning operations to five year mortgages, may have been to some extent influenced by this fact. My own company not only continued to lend on what was formerly called the "Instalment Plan" or "Sinking Fund System," now known as the "Amortization Plan," but I frankly tell you we preferred it. We have expended considerable sums in advertising it, pointing out what we considered its advantages to the borrower, and by personal, as well as printed, argument, have advocated this system as strongly as any of those who appear now to be so persuaded of its

merits. But I tell you just as frankly that, not only does there appear to be practically no demand for these long term amortized loans on the part of the Western Farmer, but we can very rarely persuade him to take a loan on that plan. We have now decided to test the matter further and are extending the term over which the instalments may be spread from twenty to thirty years, so that about one per cent. added to the interest will repay the loan.

INTEREST RATES

UNITED STATES—TAX EXEMPTION.—The claim that lower rates of interest are possible is based upon experience in densely populated European Countries, where conditions are entirely different, and more particularly upon recent experience in the United States. With regard to the latter, and speaking now more particularly as to the possible necessity for the action of the United States Government, it should not be forgotten that in the United States there never have been any lending institutions at all corresponding to the Land Mortgage Companies of Canada, which were organized to meet the requirements of our real estate owners, which went more than half a century ago to the money markets of Britain and Europe and succeeded in bringing to Canada many millions of dollars to loan at lesser rates than were previously possible. The low rates which the Rural Credit organizations in the United States have recently made available to farmers have been made possible, as you all know, by the fact that their funds are obtained from the sale of bonds which are exempt from all Federal, State and Municipal taxation of every kind. That such bonds can be marketed in the richest country in the world, where there are so many very large incomes subject to the highest rate of supertax, on a very low yield basis goes without saying. To make any comparison of rates prevailing in Canada with interest rates made possible by the sale of such securities is extremely foolish. I think no one will suggest that funds for loaning in Canada be obtained by reverting to the issue of tax-free bonds, which were deliberately abandoned some years ago. Besides, there is nothing like the same market for them in Canada. Canada's outstanding tax-free's are now selling to yield 4.75% and 4.80%. If such a retrograde step were proposed would the Governments of the Dominion and the Provinces be fair enough to enable the presently constituted lending institutions of the country to similarly obtain funds for loaning at lower rates by making free from taxation the securities our Land Mortgage Companies sell to the public? If not, why not?

Even in the United States, the tax-exemption feature was not a part of the original plan, but was super-imposed when it was found that the scheme was not proving successful, and after the country had been committed to it; and also before there was any Federal Income Tax of importance. The report of the original Commission upon which their legislation was based said:—

It is the opinion of the Commission that our American problem of rural credit should be worked out without Government aid.

One of the great lessons learned in Europe is that in the long run the farmers succeed best when they help themselves. Whenever they become dependent on the Government, they keep looking to the Government for more aid. It is believed to be a correct general statement that rural credit is on the strongest basis in those countries where it has been developed most completely without Government aid.

Even granting the great importance of agriculture, it is improper for all the people to be taxed in order to assist the prosperity of even a great class like the farming class.

and President Wilson, in his message to Congress, said:—

The farmers, of course, ask and should be given no special privilege, such as extending to them the credit of the Government itself. What they need and should obtain is legislation

which will make their own abundant and substantial credit resources available as a foundation for joint, concerted local action in their own behalf in getting the capital they must use. It is to this we should now address ourselves.

GERMANY—CO-OPERATIVE CREDIT—STABLE LAND VALUES.—Then the example of Western Europe is put before us, and we are told that capital is available at five per cent. There is a failure to recognize the fact that rates fluctuate there as elsewhere. There have been occasions when in Germany and France money was not obtainable at all, and others in which rates as high as are charged in Western Canada, and even higher, had to be paid. There have been other investigators of European conditions whose reports are available. One made in 1924 is by the Agricultural Tribunal of Investigation appointed by the British Government. It says:—

In the first instances the German Landschaft was a means for meeting the credit requirements of the nobility. The restrictions have gradually been removed, first in favor of properties of intermediate size and finally there were admitted to membership all rural properties of not less than 500 thalers in value, the yield of which was such as to ensure the economic independence of the owner.

The fact is that in Germany the owners and borrowers are chiefly wealthy land-owners, who do not occupy and cultivate the lands, but lease them. There, a mortgage has a prior position as perhaps nowhere else. There are no weed taxes, no wild land taxes, no hospital or telephone taxes, no seed grain liens, no hail tax, no irrigation charges, to take priority over the mortgage and perhaps wipe it out. The mortgage is not even subject to ordinary local taxes, which are assumed and paid by the tenant, whose goods are seized and sold if he does not promptly pay them. Foreclosure is a simple and expeditious procedure. And, when the mortgagee forecloses, the lands have a stable rental value, and, there being always a demand for more land than is available, they have also a stable selling value which can be immediately realized. Under conditions such as these, and when a number of these wealthy landlords combine in a Co-operative Association, pledging the wealth and resources of all, is it surprising that they can obtain money on more favorable terms than the citizens of a Province which has gone to the other extreme and taken from mortgagees even the covenant of the individual owner after it has been voluntarily given. As far as legislation and economic conditions are concerned, it is a "Far cry" from Germany or Denmark to Alberta.

The Co-operative feature of the rural credits systems of European Countries has not been emphasized when those systems have been referred to. Does anyone suggest that this co-operative system be adopted in Canada? I think not. It is too well known that Canadians, and especially the farmers of the prairies, would not for a moment consider making themselves responsible for the indebtedness of their neighbors. The possibility of loss by such action is too thoroughly understood.

DENMARK—INDIVIDUAL FINANCING.—Denmark is another country whose system of rural credit has been made the subject of laudatory comment, and where money rates are probably as low as anywhere in Europe. The farmers pay interest on their mortgages at five per cent., but you are aware there is another side to this transaction. When the Danish farmer gives a mortgage for the equivalent of say a thousand dollars, does he receive a thousand dollars? Not always—and certainly not in recent years. He is handed 4½% bonds for the amount, which he takes to his broker and sells in the market for what they will bring. Naturally the quotation fluctuates. As recently as January of this year, he would have received from \$850 to \$870. At the time of Dr. Tory's latest Report was issued the quotations were in the neighborhood of 80, and the borrower would have

received \$800. Is he, therefore, borrowing at five per cent? When the Government of Canada in 1917 and 1918 issued tax-free 5½% Bonds at 97½, less a commission to the selling agencies, it is obvious it was paying more than 5½% for the money, and when the farmers of Denmark pay 5% on \$1,000 and receive only \$800 or even \$870 it is equally obvious the loan is costing them considerably in excess of five per cent. In Denmark, as elsewhere, rates of interest fluctuate.

On the question of the influence of these measures upon the prosperity of the people, the Agricultural Tribunal of Investigation appointed by the British Government, in the Report from which I quoted before, said:—

It is a mistake to suppose that any Governmental Measures in the last half century have brought into existence the cultivating and land-owning peasantry of Denmark. . . . Wherever in Europe peasant proprietorship exists to-day as a large element in the agrarian system, it is but the persistence on the soil, though often in a greatly improved economic and legal position, of the class of cultivators who were settled upon it in the Middle Ages. And this is very clearly the case with Denmark.

NEW ZEALAND—COMPARISON FAVORABLE TO CANADA.—We also have New Zealand and the Australian Dominions held up as examples of the advantages of what should be done, and Canada has not done as we are told, "To make the road to rural settlement as easy as possible." Let us inquire what those Dominions have accomplished in this way.

Notwithstanding the fact that in New Zealand, which is almost entirely an agricultural country, the State has made advances to settlers since 1892, the population of Canada has increased more rapidly than that of New Zealand. Between 1900 and 1910 Canada's population increased 34.17%, as compared with 30.51% in New Zealand. Between 1910 and 1920 the increase in Canada was 21.95% and in New Zealand 20.87%. With a population of 1,250,000, the outstanding mortgages at the end of 1923 amounted to £242,591,933. In 1913 the amount was only £97,816,375. The State has not, however, provided any considerable portion of these advances. At the close of 1922 its outstanding loans amounted to £4,495,459, although as previously stated its loaning scheme had then been in existence for thirty years. Rates of interest have also been increasing in New Zealand. Of the mortgages registered in the official year 1921-1922 more than one-third of the aggregate amount bore interest at from seven to ten per cent., and the average rate was said to have been approximately 7½%.

AUSTRALIA—LARGE URBAN POPULATION.—Land Settlement schemes under which the various States have made advances to settlers have also been in effect for a long period of years in Australia, but there also, agricultural development has not been either as rapid or as satisfactory as in Canada, the population being very largely urban. The City of Melbourne, for instance, contains 51.27% of the entire population of Victoria. 43.50% of the population of New South Wales are to be found in the capital City of Sydney. Of South Australia's population 51.84% reside in the City of Adelaide; and Perth, the capital of West Australia, contains 46.42% of that colony's population.

RESULTS OF GOVERNMENTAL LENDING

UNITED STATES AND CANADA.—Let us inquire a little further into what the Rural Credit System of the United States has done for the American Farmer. It has loaned the immense sum of a billion and a half dollars at low rates of interest, but have the beneficial results which were to follow been secured? If we are to take their experience as a guide post, let us see where it leads. In the years between 1910 and 1920 the farm mortgage indebtedness of the United States increased by 131%. The appraised or reputed values of the land increased in those years by 117%, and then began to decline till in 1923 it exceeded that of 1910 by only 66%. In the meantime

the mortgage indebtedness continued to increase very rapidly—much more rapidly than previous to 1920—and in 1923 it was 260% in excess of that of 1910. In 1920 the volume of production was 21% greater than in 1910, and in 1923 17% greater; the increase for these thirteen years being not more than normal. The increase in the value of production over 1910 was 63% in 1920 and 54% in 1923. As compared with these figures, the volume of production in Canada in 1920 was 80% in excess of 1910 and continued to increase till in 1923 it was 104% greater than in 1910. Similarly, the value of the production of Canada's farms in 1920 exceeded that of 1910 by 274% and in 1923 by 125%. While unfortunately there are no definite statistics of the farm mortgage indebtedness in Canada, from such figures as are available, it may be stated that it is almost certainly not more than fifty per cent. greater than in 1910, and probably the increase is much less than fifty per cent.

FORECLOSURES—TENANCY.—Already the United States Federal Farm Loan System has been compelled to resort to foreclosure proceedings in connection with more than five thousand mortgages to the amount of about \$22,000,000, has acquired about 1,400 farms, while about an equal number of cases are pending, and in the sales of lands has sustained considerable losses. A very marked increase in the number of tenant farmers has taken place, concerning which the British Agricultural Tribunal reported.

The persistent increase in tenant-farming is one of the factors in the situation which economists and Bankers alike describe as undesirable and even alarming.

SOUTH DAKOTA DEFICIT—LONG TERMS ABOLISHED.—Like our own Provinces of Saskatchewan, Manitoba and British Columbia, some of the States have also their own systems of Rural Credit. That of South Dakota was created by legislation passed in 1917, and has issued and outstanding Bonds to the amount of \$47,500,000, at rates of interest varying from 4¼% to 6%. The latest issue in 1924 bearing 5¼% was sold at par, while a number of others were issued at a discount. The mortgage loans amount to upwards of \$41,000,000, at from 5½% to 7%, the average being approximately 6%. Up to the close of the System's last fiscal year there exists an ascertained deficit of \$3,038,663. A joint Committee of the Senate and House appointed to investigate the affairs of the Rural Credit Board made a very exhaustive Report in February, 1925, in which it said:—

Of approximately 12,000 loans, more than 4,300 are now in default, and 465 are in process of foreclosure. How much loss, if any, there will be depends on what the security is or becomes worth, how the borrowers prosper in the future and how the land eventually acquired is handled.

Referring to the necessity of providing for interest on the Bonds, the Report said:—

It must, however, be remembered in this connection that over one-third of the Rural Credit mortgage loans are in default, and, therefore, a deficit of interest income has not only developed in the past, but the deficit will continue to increase as the years go on.

Among the Committee's recommendations were:—

That all outstanding Bonds be retired as rapidly as consistent with the proper handling of the mortgages and other property already acquired.

That no new loans be made, except from the funds received in payment of the loans already made and for the purpose of the reinvestment of such funds.

The Committee added:—

This recommendation is made for the reason that it is the judgment of your Committee that any benefits which have come from the Rural Credit System are over-balanced by the losses

present and prospective, and abuses and the complications which have followed the adoption of the System, and that the bonded indebtedness is entirely out of proportion to our assets and other State debt.

The recommendations made by the Committee were adopted and legislation providing for the gradual liquidation of the State's Rural Credits became effective July 1st, 1925. This law abolishes the thirty-year amortization plan and prohibits the loaning of money for more than ten years, and then only for the reinvestment of funds. The issuing of new Rural Credits Bonds is prohibited.

MINNESOTA—LARGE LOSSES.—In 1923 the State of Minnesota established a Rural Credits Bureau. In a very short period its operations proved so unsatisfactory that, like South Dakota, a Committee was appointed by the Senate and House of Representatives to investigate. The Committee began its investigation on 30th January, 1925, and presented a Report on March 13th, 1925, which disclosed the fact that large losses had already been sustained. The Report showed that up to February 1st, 1925, the Bureau had accepted and closed 6,740 loans aggregating \$34,523,400, while an additional 810 loans, amounting to \$2,814,700, had been accepted, but not yet closed. At the same date forty-three loans were either foreclosed or in process of foreclosure, and there were 255 loans which were delinquent by reason of failure to pay instalments and interest. On this subject the Committee said:—

The number of loans delinquent does not of itself necessarily show the true condition of loans, which on the records of the the Bureau are not delinquent, for undoubtedly in many cases second mortgagees are paying the instalments and interest on the State's loans. How long these second mortgagees will continue to do so is a matter solely left to conjecture, and if such payments should cease the Committee believes the number of delinquent loans will be substantially increased.

Among other comments two or three quotations will be found of special interest:—

It is significant that in several instances the owner of the land not only refused to pay the first instalment and interest on the loan, but actually, after the loan was made, abandoned the land.

From the records, furnished from the Bureau, it appears that the State's investment in the lands where foreclosures have been completed and where the State has acquired title to the land, subject to the right to redeem, is better than \$100,000. These figures are as of February 1st, 1925. That there will be substantial loss to the State arising out of these foreclosures there can be no doubt. The margin between the State's investment and the bona fide value of the land is so limited that with a few years' taxes, with the addition of accrued interest, with the cost of foreclosure the margin will be wiped out, and the State then stands in the position of a Lender who has loaned to the full value of the land which inevitably leads to loss What has been said here applies with equal force to the 235 delinquent loans on which foreclosure has not yet been commenced, unless the loans are reinstated.

The aggregate amount of the delinquent loans, exclusive of those where foreclosure has been completed, is approximately \$1,143,000.

A supplementary individual report by Senator W. A. Just is worth quoting in full:—

In view of the disclosures made during the investigation of the Rural Credits Bureau, I would like to add this personal Supplementary Report.

(1) Less than two years of operation of the Bureau has disclosed a large number of delinquencies.

- (2) Much worse conditions can be expected after another period of depression, particularly when we take into consideration that this was a very good year, so far as crops and prices are concerned.
- (3) The payments for the first year would naturally come easier by the close proximity of the help extended, than in future years.
- (4) In my opinion, money rates by private interests will be nearly, if not entirely, as cheap as those made by the Bureau, when conservatively placed.
- (5) As a rule, with some exceptions, of course, the farmers have not been extensively helped.
- (6) No more funds should be available for the Bureau for at least two years, if at all, to give us time to see what the conditions are after a lapse of such time.

BANEFUL RESULTS FORESEEN.—There were those who foresaw the baneful results of the very extensive additional credits provided in the United States. The President of the Federal Land Bank in St. Paul said in September, 1919:—

People are growing rich over night; land is being bought and sold like stocks and bonds on the Market Exchange. Such land is not bought for farming purposes. Every speculator is interested in unloading as soon as possible so as to pass on the deal before settlement day comes. As to who will become the final owner will depend on the relative financial strength of the holders of the sixth, fifth, fourth, third, second or first mortgages. In many cases they will break down to the second or first mortgages, and thus the prices will be back to normal again with all the inflations squeezed out. The break will be greater in some localities than in others, according to the degree of inflation. This wave of land speculation is in a way anticipating the future earnings of the land, capitalizing it in the present and spending the profits now at the expense of the future. When this joy-riding is over, it will be a sorry day, not only for farming interests, but will also affect many other lines of endeavor.

Speaking on the same subject, on March 4th, 1919, Senator Fordney said:—

Thoughtful and careful people everywhere counsel economy in living and caution about investment in this time of high taxes and inflated prices. . . . The Treasury Department urges us all to save money by thrift stamps and help pay the War debt. . . . The Federal Farm Loans Board takes exactly the opposite view. They urge people to borrow money, to place mortgages on their farms. With the aid of travelling lecturers, Chautauqua Speakers, Special Newspaper Writers, and others, farmers are told that federal farm loan bank mortgages never have to be paid off, or that they pay themselves off. Many are led into borrowing money for land speculation or to invest in automobiles and non-productive improvements.

One of the popular phases of these mortgage promoters is: "The farmer is learning that the dollar is a thing to be spent and not something to be hoarded." . . . I know that they have loaned money on farms in the country at much above the value of the property, and that the Government will never get the money back. It is a fraud. I know a piece of land that sold for \$3 per acre, and the Federal Farm Loan Bank loaned \$15 an acre on it, and it would not sell to-day for \$5 an acre; and that is the kind of loans they are getting sometimes. . . . The loans made by the Federal Farm Loan Banks are such loans that prudent Bankers and Money lenders will not make. The Federal Farm Loan Banks are getting such loans, as no prudent money-lender will take. Those responsible for the system encouraged the farmer to borrow extensively, being desirous of proving its value by the

number of loans and the amount loaned. In some cases where the borrower was a thrifty farmer, benefit was derived, but in the majority of cases the money so obtained was used for unproductive purposes.

CONDITIONS IN CANADA

ADDITIONAL CREDIT NOT REQUIRED.—I have made the claim that the established lending institutions of Canada have fully met the requirements for mortgage loans. I am now going a step farther and, whatever those who differ from this view may say, I shall venture the assertion that the last thing the Western farmer needs is more credit. Whatever may have been his many difficulties, from which he is now happily emerging, lack of credit was not one of them. In the unfortunate years of two-dollar wheat, he was in the position of the husbandman in the parable whose "land brought forth plentifully." He did not decide to "Pull down his barns and build greater," but he decided to double or treble his production, to compel the elevator companies to build more elevators and the C.P.R. to build more cars and to buy more locomotives. He bought more land, at the then peak in prices, on credit, and to cultivate it he had to purchase additional stock, implements and other equipment, all on credit. Whether he found it necessary to buy an automobile or not I do not know, but if he did it also was purchased on credit. Then the purchasing power of Europe failed, and prices for his wheat were cut in two. To make matters worse a couple of years of poor crops followed, and there was little to sell even at the unprofitable prices which prevailed. There are few who will not admit that the heavy burden of liabilities which they took upon their shoulders in those days of unlimited credit, and under which they were compelled to stagger for a number of years, has been chiefly responsible for the reversal in their fortunes which the producers of grain experienced a few years ago.

No blame can possibly attach to our farmers for their action in this respect. They did precisely what the manufacturers, wholesale and retail merchants, and other business men were doing, when they made large extensions to their plants and business premises, thereby incurring heavy liabilities, which, when the era of extravagance suddenly terminated, left them in the same position as the wheat producers found themselves, and resulted in the wave of liquidations and business failures which kept Trustees in Bankruptcy and Official Assignees busy for a long period.

GOVERNMENT SCHEME SHOULD BE ON SOUND BASIS.—In concluding this lengthy review of the Rural Credit situation, I desire only to add that, if further Government systems be set up, the old-established lending institutions, which have fully provided the credit required since many years prior to Confederation, are quite satisfied they can compete in rates of interest as well as in all other respects, provided they be given fair play, and if the Dominion's system be operated on a business basis with adequate provision for administration expenses and the inevitable losses. As to what this provision should be we have the statement by Hon. C. A. Dunning in his last budget speech to the Saskatchewan Legislature, on January 12th, 1926, in which, referring to the affairs of the Saskatchewan Farm Loan Board, he said:—

The result of the 1925 operations, reflecting as they do the general improvement in the economic condition of the people and consequently of the borrowers, does tend to justify the belief of those of us who started the scheme that it can be worked on a margin of one and one-half to two per cent., allowing for all costs of administration and contingencies, provided the borrowers play the game fairly.

INTEREST CHARGED.—On this subject of rates of interest, it may have been forgotten that Western farmers were obtaining loans from our Loan Companies as far back as 1903, at as low as seven

per cent., and even less. There was a tendency towards increased rates prior to the war, due to the increased cost of the money to the Companies, which tendency was, of course, greatly accentuated by the diversion of huge sums for war purposes. During the past two years the funds available have again been rapidly increasing, with a consequent reduction in rates of interest, and there is no doubt that this trend to reduced rates will continue for a considerable period. The price of money fluctuates as well as the price of wheat, though not to so great an extent.

CANADIAN COUNCIL OF AGRICULTURE CONFERENCE, 1924.—In connection with this reference to rates of interest for mortgage loans, it may not be amiss to mention the conference which took place in Winnipeg on December 17th and 18th, 1924, which was attended by representatives of the Canadian Council of Agriculture, of the leading organizations of farmers in the Western Provinces, of the Governments of Manitoba, Alberta and Saskatchewan, and of the various Mortgage Loans Associations, as well as the Secretary of this Association.

This Conference was called for the discussion of:—

- (1) Cost of Farm Mortgage Credit in the three Prairie Provinces (which was taken up under six different headings).
- (2) Long term loans on Amortization principles.
- (3) Legislation affecting mortgage security.
- (4) Sufficiency of security for existing mortgages afforded by present land values.
- (5) Proposed Amendments to Bankruptcy Act.

After these subjects had been fully and frankly discussed, the Conference unanimously adopted the following Resolution:—

Whereas it is highly desirable not only in the interests of Agriculture, but of the community as a whole, that mortgage loans on Western farms should be procurable at a lower rate than is now current, this Conference, believing that the essential security on which the loans are made is ample to justify a reduction in the rate of interest, places itself on record as of the opinion that the following would assist materially towards the attaining of that end:

- (1) That the payment of taxes should be regarded by farmers as their first financial obligation in each year, and it should be the duty of the taxing authorities to exercise all diligence in the collection of taxes as far as possible in the current year.
- (2) That Municipalities and other taxing authorities, who, on the whole, have shown a real appreciation of the need for a reduction in taxation, should continue on a policy of strict economy with a view to further tax reduction.
- (3) That the payment of the annual interest on first mortgages should be regarded as a very serious obligation, which should not be omitted except under most special circumstances, and never without consultation with the Mortgage Company.
- (4) That while every possible effort should be made to improve the conditions and prospects of those already on the land, selected immigration be encouraged in order to bring into use the unoccupied lands already served by railways and other essential facilities.
- (5) That Governments should refrain from legislation abrogating or diminishing reasonable contractual rights.
- (6) That Governments should review carefully all existing or proposed legislation affecting mortgage security, eliminating all that should be eliminated, having in mind the general welfare of the community, including borrowers and lenders.
- (7) That as it is recognized that lengthy, intricate and uncertain legal methods in the handling of mortgages are not beneficial

to either borrower or lender, such legal methods should be made simple and inexpensive, and Land Titles and other fees for procedure connected with foreclosure, etc., should be reduced to a cost basis, thus protecting the borrower's equity.

- (8) We believe that if progress is made on these lines and in particular in the direction of a more general recognition of the obligations imposed by reasonable contract, the supply of money for mortgage investment will so increase that the rate of interest will inevitably decline.
- (9) And further, the Conference recognizes that, under the conditions now prevailing in this country, eight per cent. should be regarded as a maximum rate of interest except for small amounts, and that, as conditions become more similar to those prevailing in the older portions of Canada, the rate of interest should also approximate to that current in those older sections.
- (10) And further, the agricultural representatives at this Conference having represented that, in their opinion, there is a real demand for long term loans on the amortization plan, the Mortgage Association representatives agree to give full and sympathetic consideration to plans for lending on such basis.

Though it has been impossible to treat this large and important subject exhaustively, I fear you will be unanimous in agreeing that to you it has been exhausting. Therefore, while there are other features to which reference might be made they must be omitted. I have endeavored to deal with the subject frankly and candidly, bringing to bear upon it such experience and information as I have been able to acquire in forty-five years' association with the mortgage loaning business in Canada; and acknowledging my indebtedness for information with respect to conditions in other countries to the researches of the Secretary of our Association and others who have made a deeper study of that branch of the subject than I have been able to do. So much time having been given to this question, I must make but brief comment on one or two other subjects, and omit reference to others about which I had proposed making some remarks.

PROBLEMS UNDER CONSIDERATION

SEED GRAIN LIENS.—We have continued our efforts to secure some relief for mortgagees from the seed grain, fodder and relief liens in favor of the Dominion Government, which were created in the early part of 1915, and which bear so heavily and unfairly upon the mortgagees' interests. Although in the season of 1915 there was produced a crop of unprecedented magnitude and value, and although there have since been several very productive years, the large sum of \$3,159,432 remained unpaid on 3rd October, 1925, of which \$1,038,013 was for interest. The Department appears to be disposed to recognize the necessity of making some provision for remedying the unjust features of the existing situation, and if legislation on the subject had been possible at the recent Session we believe a Bill would have been introduced. Our Secretary has been invited to confer with the Deputy Minister before the new Parliament meets.

IMMIGRATION AND COLONIZATION.—We are agreed that there is no question of more vital importance to the Dominion than that of increased immigration, with which is closely associated that of colonization. The Deputy Minister of Colonization, after an informal conference with the Secretary and myself, placed before the Executive some proposals looking to the co-operation of our member Companies in colonizing some of our lands with settlers from great Britain. These proposals have been referred to a Special Committee for consideration, the members of the Association in the meantime being asked to give expression to their views on the subject. While the

details of the scheme may not in all respects be such as can be approved, I think we may assure Mr. Egan that we all recognize the great and immediate importance of the subject, that we are desirous of co-operating in any way we may, consistently with the interests we represent, and that any proposals to that end will receive our most sympathetic consideration.

MARITIME PROVINCES.—The one portion of our Dominion which is not as yet sharing to any appreciable extent in the revival of prosperous conditions is the Maritime Provinces. Those Provinces were dubious as to the advantages they were likely to derive from Confederation and were hesitant and unwilling in assenting to it. For some time there has existed a strong and growing feeling that they have not received fair treatment nor shared proportionately in the growth and prosperity of the Dominion. This is a question which is certain to force itself upon public attention and which will demand the most serious, intelligent, and sympathetic consideration of our statesmen and of the most thoughtful of our business and financial interests. If one member of the body politic suffers, all the members suffer with it. I do not know that our Association can make any contribution to the solution of this problem, but as citizens vitally interested in the welfare and progress of Canada we cannot, and do not wish to, ignore it.

CO-OPERATION OF COMMITTEES.—In addition to the attention your interests have received at the hands of the Executive Committee, some of the Special Committee have found their duties by no means light. As a member of the Rural Credits Committee, all I shall say is that other members of that Committee have been most unsparing in their efforts and have rendered most valuable service. The Municipal Finance Committee has had a more than usually active year, particularly in connection with the affairs of certain rural Municipalities in Manitoba, to which it was necessary for the Secretary and his assistant, Mr. Fortin, to devote a very large portion of their time, which we believe will result in great advantage to all interested. To them and to the members of that Committee our best thanks are due and are formally tendered.

Date Due

APR 11	551	MAR 7	REC'D
OCT 13 1959			
OCT 3 1961			
		FEB 20 1970	
MAR 23		FEB 7 -	REC'D
MAR 9		MAR 19 1970	
		MAR 12	REC'D
FEB 24			
		APR 3	1973
		APR 2 1973	REC'D
		NOV 9 1979	
MAR 7		#3064	
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